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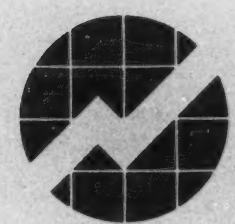
KEDI ECONOMIC SURVEY

FEBRUARY ISSUE

February 29, 1980



KENT ECONOMIC AND DEVELOPMENT INSTITUTE

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KEDI ECONOMIC SURVEY

FEBRUARY ISSUE

February 29, 1980

President: Vladimir J. Simunek

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

KEDI adheres to the forecast made in the January issue. Assuming that no drastic changes in the Administrations' policy would take place, there will not be a RECESSION. Starting in 1976 this Institute has been predicting that economic growth would slow in 1979 and be at a lower level during 1980 and 1981, than the general growth rate of the 1970's. The Administration's prediction is viewed here as being off the mark and erring, generally, on the side of pessimism. A comparison is given:

	Administration %	KEDI %
Growth 1980	-.6	+1.2
1981	+1.7	+2.6
Unemployment, end 1980	7.5	6.2
Inflation 1980	+11.8	+13.9
1981	+9.2	+12.2

The Carter Administration sees the economic performance in 1980 as being below the level of 1979, whereas some growth, 1.2 percent is predicted here. No recession will occur. In terms of inflation, it is this Institute which is more pessimistic, as can be seen.

The Business Council also provides illustration of the tendency of many forecasters to continue to look ahead to what they see as a possible or real recession and be extremely slow to respond or respond positively to any economic news which contradicts that view. That Council was still

saying in the middle of February that the economy will decline 1.0 percent this year. They foresee inflation at a rate slightly lower even than the Administration and unemployment at the same rate as the government does. Even considering the December and January data, many forecasters still cling to the recession idea and only say that such data just means it is being delayed a bit in materializing. They are clinging to grey clouds -- not much to grasp.

The Wall Street Journal ran an article on page one, February 11th with the following title "After the Slump. Analysts Say Upturn Will Be Slow and Weak When Recession Ends." The assumption of an existing recession based on what many forecasters are saying, has no firm foundation as seen by this Institute. The speculations made about third quarter, 1980, recovery from the recession reminds one of fictional houses of cards in a light breeze.

Supplies of industrial goods are not excessive nor are producer's hunting for buyers or offer giving price discounts. Both new factory orders and the backlog of orders was up during January. Purchasing agents view with skeptism the continued recession forecasts which have not materialized. They are more atuned to the higher defense spending and inflation. In other words, new economic data, gives support to the view that slow growth will continue.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the December, 1979, forecasts, the changes concern the Assumptions No. 3 and 7.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average $26 per barrel and in 1980 this figure will go up to the $34 range. In 1981, it is expected the price will go up on $40 and in 1982, on $46 per barrel.

2. It is still to current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the previous forecast, slightly higher price increases of energy items and substanially higher defense orders have been considered.

3. No abrupt, drastic changes in the Administrations' and Federal Reserve policies will occur. The Administration will continue its policy of maintaining high interest rates and tight money. In the second or third quarter of 1980 it will adopt fiscal measures aimed against further increases in unemployment. The monetary policy will ease, but not earlier than in 1981.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops. Compared with the previous forecast, the exports of grain have been reduced.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

	1980	1981	1982
West Germany	3.1%	3.4%	3.5%
Italy	2.9	2.8	3.0
Japan	2.1	2.0	2.3
Great Britain	1.8	1.9	2.0
France	2.3	2.2	2.3

1.1 REAL GROWTH
(Table 01. on page 8)

At the present time, there is virtually no evidence about a coming downturn in the economy. There is more good news than bad news. This lends confirmation to the view held here all along.

First, retail sales in January were up by 2.3 percent over the December, 1979 total. Comparing January, 1980, with the January of 1979 results in a retail gain of 10.9 percent. Administration spokesmen seemed ready to discount this good news by considering it as some kind of fluke and still trying to interpret it as evidence somehow reflecting a downturn that will start anytime--if not in January, then February, or March, or sometime soon.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. const. 72$	1399.2	1431.7	1448.7	1742.7
Index of Industrial Production	1967 =100	145.2	152.2	154.3	173.5
Capacity Utilization	%	84.3	85.9	86.6	86.1
Unemployment Rate	%	6.0	5.9	6.3	6.2
Private Housing Starts	mil. units	2.020	1.721	1.519	1.903
Car Sales	mil. units	11.3	10.6	10.3	12.9
Implicit GNP Price Deflator	1972 =100	152.1	165.5	183.2	288.5
Consumer Price Index	1967 =100	195.3	217.4	247.6	400.1
Producer Price Index	1967 =100	209.3	236.1	274.9	414.5
Federal Deficit	bil.$	-27.7	-10.3	-21.1	-23.5
Personal Income	bil.$	1717.4	1923.7	2139.7	3324.8
Prime Rate	%	9.06	12.76	15.79	10.14
Mortgage Rate	%	9.30	10.52	12.44	9.96
Currency plus Demand Deposits	bil.$	352.8	376.3	416.3	680.1
Commercial and Industrial Loans	bil.$	230.9	265.7	283.0	476.9

Secondly, machine-tool orders leaped ahead in January from the December level by 24 percent. Even though the January total was 3.8 percent lower than the year-earlier figure, it still is a sign of relative strength rather than weakness. Industry backlogs were 35 percent higher this January than last and were up 3.3 percent from December 1979. Such backlogs present a mixed view as it reflects some ordering ahead to try to avoid price gains. A drop in machine tool orders is not anticipated here. The strength in this industry is mostly based on solid demand. Defense orders, modernizing, auto industry redesigning, all lend demand to machine tools. The large backlog and shortage of skilled workers may lead some buyers to shop abroad for such tools to get faster delivery.

The third piece of good news concerns durable goods orders. Such orders gained 4.3 percent in January from the prior month. There appear to be many that regard such news as being rather sad as it reflects an economy that is not slowing down to recession levels. Some feel that recession or a least no growth or miniscule growth is needed to curb inflation. Current strength is viewed by some as weakening government anti-inflation views. The backlog of durable goods orders went up last month by 1.1 percent from the December, 1979 level.

Construction spending went up by 0.9 percent in December from the month earlier level. That is viewed here as a bit, although not large, of good news. If the effects of inflation are removed by measuring in 1972 dollars, the December spending rate was up 0.8 percent from the previous month, but down 3.3 percent from the year-earlier figure. Still, if any recession were upon us or approaching, that figure would be much larger in terms of a drop.

The fifth item on the good news side concerns industrial output. In January this index managed to post a rise of 0.3 percent over the revised December level. True, that is almost flat, but it is not negative. It does not add a whisper of veracity to the "recession is coming anytime" pack of bombastic forecasters. The KEDI forecast shows a continuous growth of industrial production: 1980: +1.4%; 1981: +3.2%; 1982: +3.7%.

Now, for the bad news. That comes from our automobile industry. Sluggish production is expected to continue throughout the first half of this year. Recently reported studies have shown the American made car to be generally safer in collisions at speeds of around 35 miles per hour than foreign made cars. That may help sales a bit. However, other studies recently reported reflect the fact that cars made abroad, especially in Germany and Japan, are better made reflecting a concern for craftsmanship by the workers and a more cooperative view to a good product between workers and management.

KEDI forecast for the automobile industry shows the sluggish first half of 1980, followed by a recuperation in the second half of the year. However, more vigorous performance is expected to occur not earlier than in 1981, when the U.S. automobile industry will regain, at least a part, of the market from the overseas competition. In 1980, the share of imported cars on sales is expected to remain at the 25% level. In 1981, it is projected to drop on at 21%, and in 1982, at the 19% level.

1.2 PRICES AND NOMINAL GNP
(Table 02. on page 12)

This Institute's forecast concerning price developments has been revised since the last issue. It is regretted that the revision is not in a down-

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TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1450.7	1431.7
Index of Indust. Production	1967=100	145.2	152.2	151.9	152.2	152.2	152.2
Unemployment Rate	%	6.0	5.8	5.7	5.8	5.9	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.3	85.8	85.9
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.604	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.6	10.6

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1431.7	1440.5	1443.8	1451.5	1459.1	1448.7
Index of Indust. Production	1967=100	152.2	152.4	153.0	154.9	156.7	154.3
Unemployment Rate	%	5.9	6.3	6.3	6.2	6.3	6.3
Capacity Utilization Rate	%	85.9	86.1	86.0	86.7	87.6	86.6
Private Housing Starts	mil. units	1.721	1.381	1.517	1.587	1.589	1.519
Car sales	mil. units	10.6	9.7	9.9	10.6	10.9	10.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1448.7	1465.4	1481.9	1495.1	1506.9	1487.3
Index of Indust. Production	1967=100	154.3	157.5	158.3	159.8	161.1	159.2
Unemployment Rate	%	6.3	6.4	6.3	6.2	6.2	6.3
Capacity Utilization Rate	%	86.6	88.3	88.5	88.2	88.9	88.5
Private Housing Starts	mil. units	1.519	1.559	1.715	1.803	1.806	1.721
Car sales	mil. units	10.3	10.6	11.3	11.5	11.5	11.2

*Historical data

ward direction. In the last issue, the prediction for inflation during 1980 was 13 percent. This has been revised to 13.9 percent when comparing 1980 to 1979. The 1981 gain is seen here as being 12.8 percent. The main reasons for the change is in the data for consumer and producer prices for January.

First, consumer prices went up in January by a seasonally adjusted 1.4 percent. Before compounding, that yields an annual rate of 16.8 percent. In December the rise was 1.2 percent, and in November, it was 1.0: each month here being a little more than the month before.

The biggest gain in the consumer price index in January was in the transportation area. Here there was a 3.1 percent gain. Most of this jump is attributable to the rise in gasoline prices.

Mortgage-interest rates jumped 3.6 percent in January's index. Prices of houses were up 0.9.

On an unadjusted basis, the all-urban consumer price index stood at 233.2 percent of the 1967 average in January. The gain in the first month of 1980 as compared to 1979 was 13.9 percent.

The inflation rate is certainly going to have an effect on the labor view of the governments anti-inflation policy. In the 12 months ending in January, when the consumer price index was going up almost 13 percent, the hourly earnings of production and nonsupervisory workers went up by 7.7 percent. (Being in an academic institution, it must be said that professors were hardly any better off than such workers in terms of pay gains.)

The National Center for Economic Alternatives calculated that the prices

of the necessities, food, shelter, energy and medical care went up a seasonally adjusted 17.6 percent in 1979 as compared to the previous year. Prices of non-essentials were up 6.8. Energy prices were the biggest culprit here: these gained over 37 percent. The Center estimates that the four necessities comprise about two-thirds of the household spending of roughly 80 percent of all U.S. consumers. (Thermostats are being set lower, while energy producing companies profits get higher.)

Secondly, producer prices for finished goods jumped a seasonally adjusted 1.6 percent in January. That is a 19.2 percent annual rate, before compounding. This includes a rise in prices for energy that more than offset any declines in food prices at the producer level. A spokesman for the Labor Department pointed out the one month lag in the producer price index for energy means that February will likely be even higher. It is felt that the main pressure on producer prices accelerating climb is from the energy, nonfood consumer goods and capital equipment areas.

Mr. Charles Schultze, Chairman of the Council of Economic Advisers recently repeated the administration's view that most of the acceleration in prices in the last two years is attributable to world oil price rises and the effect of higher mortgage-interest rates and house prices. He said, in the long run, the biggest source of inflation is sagging productivity.

KEDI calculations show, that the low productivity of labor causes approximately 50% of current price increases; approximately 30% is due to the oil prices, 10% to the excessive government regulations and environmental protection measures, and the remaining, approximately 10% is caused by

various sources, as higher prices of houses, higher interest rates, and others.

KEDI maintains the position that no mandatory wage and price controls will be introduced this year. More vigorous action by the Administration is not expected any earlier than 1981. For now, the indications are that the Administration is not considering the introduction of controls. Statements from the White House reaffirm the continuation of present policies regarding inflation. More economists are beginning to say it may be time to at least think about controls in the face of increasing inflation. The Chairman of the Federal Reserve Board, Paul Volcker, restated his opposition to wage-price regulation and the non-workability of credit controls. The Reserve Board continues to feel that by cutting the money supply growth, inflation can be fought.

This Institute's calculations show that the 15 percent range of price gains it projected for 1980 and 1981 are close to the frontier of keeping the economy running without a more active policy to curb the inflation spiral. If the economy would heat up to a higher rate of inflation, the developments in prices might turn into an explosive situation, making some sort of controls a necessity. Again, this is viewed as a last resort by KEDI.

1.3 EMPLOYMENT AND LABOR
(Table 03. on page 14)

The data in the present forecast remains basically unchanged when compared to the prior issue. KEDI has increased slightly the unemployment rates for the first and second quarters of 1980 in the automobile and construction industries. The rates have been reduced slightly in machinery, electronics, ordnance, and machine-tool industries.

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TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	227.6	217.5
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	246.7	236.1
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.7	165.5
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2459.4	2369.5
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1581.2	1510.0
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	387.5	387.3

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.5	237.0	244.7	251.2	257.3	247.6
Producer Price Index, NSA	1967=100	236.1	260.2	270.3	279.4	289.7	274.9
Implicit GNP Price Deflator	1972=100	165.5	175.6	180.8	185.8	190.4	183.2
Gross National Product	bil.$	2369.5	2529.5	2605.0	2696.9	2772.9	2651.1
Personal Cons. Expenditures	bil.$	1510.0	1594.7	1638.9	1699.2	1751.8	1671.2
Gross Private Dom. Investment	bil.$	387.3	386.3	404.1	422.3	434.8	411.9

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	247.6	266.5	273.4	281.7	289.1	277.7
Producer Price Index, NSA	1967=100	274.9	294.5	301.8	311.7	319.2	306.8
Implicit GNP Price Deflator	1972=100	183.2	191.4	195.8	200.9	206.0	198.5
Gross National Product	bil.$	2651.1	2804.8	2901.6	3003.7	3104.2	2953.6
Personal Cons. Expenditures	bil.$	1671.2	1786.5	1820.4	1927.3	1970.4	1876.2
Gross Private Dom. Investment	bil.$	410.9	449.5	463.8	489.9	514.8	479.5

*Historical data

This Institute maintains the projection of an unemployment rate of 6.3 percent at the end of this year. Also the forecast for the end of 1981, 6.2 percent remains unchanged. The same is true of the other indicators of employment projected here. The preliminary data for January do not indicate any serious departure from our projected figures. As an example, the average workweek for nonfarm workers in January was 35.7 hours. This is the same as the December and the November figures. For factory workers, the average workweek went up to 40.4 hours from 40.3 in December and a November rate of 40.1: slight gains for each of the months. Average factory overtime in January was 3.3 hours which is equal to the November rate and 0.1 above the December rate. These figures are in line with projections that have been made by KEDI in Janaury this year.

There are no indications of any dramatic deterioration in the labor market this year or in 1981 either.

	KEDI projection for the first quarter 1980	January 1980 actual data
Average workweek for nonfarm workers	35.9	35.7
Average workweek for factory workers	40.6	40.4
Overtime factory hours	3.2	3.3

4.0 HOUSING
(Table 04. on page 16)

The forecast concerning housing unit starts has been decreased somewhat when compared with the KEDI projection in the January issue. This is due mainly to two factors.

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TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.9	103.3
Employed	mil.	94.4	96.5	97.0	97.2	97.8	97.2
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.5	93.9
Unemployment Rate	%	6.0	5.77	5.73	5.81	5.88	5.80

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.8	105.6	106.4	105.3
Employed	mil.	97.2	97.6	98.2	99.0	99.7	98.7
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.9	94.3	94.8	95.6	96.4	95.3
Unemployment Rate	%	5.80	6.30	6.28	6.22	6.34	6.29

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	98.7	100.2	101.3	101.9	102.7	101.5
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	95.3	96.9	98.0	98.5	99.4	98.3
Unemployment Rate	%	6.30	6.41	6.25	6.22	6.17	6.26

*Historical data

On the other hand, the recent Federal Reserve increase in the discount rate from 12 to 13 percent resulted in the revision of the projection here in the mortgage rate. It is expected, now that the mortgage rate for new homes will be 12.06 percent at the end of this year as compared with the previously projected 11.15 percent. Higher than expected mortgage rates will have an added dampening effect on housing activity during 1980.

In addition, the rate of housing starts in January has affected the prediction here. The January seasonally adjusted rate was 1.42 million, down from the revised adjusted December rate of 1.52 million. The mild weather aided building some, or the decline would have been a bit more. However, that added activity is really only a switch from some building that would have started a few months later. This Institute has reduced its projection for total housing starts in 1980 by a small amount. Now, the estimate is at 1.519 million as compared with the previous forecast here of 1.577 million.

Other forecasters present a more pessimistic outlook. The U.S. League of Savings Associations' chief economist revised his forecast for 1980 down to 1.35 million units. For the National Association of Home Builders, the reduction was down to 1.2 million.

These forecasts are viewed here as too low, especially taking into consideration the rise in building permits reported in January. These were up by 2.3 percent. Single-family permits were down by 3.7 percent but multifamily permits were up by 12.3 percent over the year-earlier total.

Correspondingly to the lower projection of housing units starts, the projected growth of costs of residential and commercial construction has been slightly reduced.

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TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.059	1.169
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.545	.551
Mobile Homes Shipments	thous units	276	284	274	276	296	283
Housing Permits Issued	mil. units	1.800	1.499	1.591	1.652	1.398	1.535
Construction Costs-Commerc.	1972=100	164.3	172.7	178.3	182.2	187.4	180.2
Construction Costs-Resident.	1972=100	161.8	171.8	173.9	180.0	189.3	178.8

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.169	.901	1.011	1.056	1.034	1.001
Multifamily Housing Starts	mil. units	.551	.480	.506	.531	.556	.518
Mobile Homes Shipments	thous units	283	274	275	295	282	282
Housing Permits Issued	mil. units	1.535	1.327	1.364	1.371	1.096	1.290
Construction Costs-Commerc.	1972=100	180.2	193.6	197.9	201.3	208.9	200.4
Construction Costs-Resident.	1972=100	178.8	192.1	196.8	201.4	208.3	199.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.001	.985	1.137	1.200	1.195	1.129
Multifamily Housing Starts	mil. units	.518	.574	.578	.603	.611	.592
Mobile Homes Shipments	thous units	282	271	304	327	336	310
Housing Permits Issued	mil. units	1.290	1.189	1.214	1.327	1.306	1.259
Construction Costs-Commerc.	1972=100	200.4	215.6	222.3	227.6	235.7	225.8
Construction Costs-Resident.	1972=100	199.7	216.3	222.4	228.7	235.6	225.8

*Historical data

1.5 FEDERAL AND STATE AND LOCAL BUDGETS
(Table 05. on page 19)

The forecast in this issue concerning budgets has very minor changes in it. These are due mostly to the routine revisions of actual data for the fourth quarter of 1979.

KEDI maintains its projection of calendar year deficits in the Federal Budget. The red ink will amount to approximately 20 billion dollars in 1980 and 22.3 billion in 1981.

There are indications that the Administration will make an attempt to trim the present Federal Budget and lessen the deficit in 1981 proposed budget. (Fiscal 1981 starts in October of this year.) Currently the fiscal 1980 spending increases are 14 percent above the prior year level. The 1981 fiscal proposal shows gains of just 9 percent over 1980. That is commendable. However, spending over-runs have been part of recent history. Families running into red ink due to the lowering of real purchasing power usually have a long painful period of decision-making in finding what to cut in spending or how much debt to bear. So do Congressional committees.

It is unlikely that these proposals will meet with success partly because the fiscal year is about half over already. Election year rhetoric plays a part in lofty budget aspirations, and assorted economic needs of high and medium priority will keep the deficit in its own lofty range.

This Institute's new projection of higher inflation rates for 1980 and 1981 when applied to the "entitlement" items in fiscal expenditures yield more spending. However, the inflation rate means the increased tax receipts

will roughly match the gain in spending attributable to that escalation.

KEDI's assumption is this: budgetary real expenditures will remain basically unchanged.

Concerning State and Local Budgets, the forecast in this issue as compared to last month, do not show any changes of significance.

1.6 INCOME
(Table 06. on page 21)

In this projection, personal income and personal disposable income have been slightly increased, when compared with the last forecast. However, personal disposable income shows only a very slight increase in 1980 and 1981 when adjusted by the inflation rate computed from the Consumer Price Index.

Personal Disposable Income
(bill. constant 1972$)

	Year 1979	1980 (quarters) 1	2	3	4	Year 1980	Year 1981
Personal Disposable Income	994.0	994.1	995.4	997.1	998.1	996.2	999.7

Projected 1980 and 1981 data show that in this year and the coming year, real personal disposable income will change by .2% and .3% respectively from each prior year. Actually, a slight decline will occur, when measured on a per capita basis.

KEDI's estimate of corporate profits remains basically unchanged. In 1980, the weakest profit performances are expected in auto, steel, rubber, housing, airlines, forest products and stone, clay and glass. Profit gains are projected for petroleum industries, machine tools, nonferrous metals,

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TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	242.3	225.0
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	82.1	78.4
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-11.3	-10.3
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	40.3	40.7
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	14.3	14.2
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	22.1	23.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.4	245.1	255.9	262.4	266.9	257.6
Corporate Profit Tax Accruals	bil.$	78.4	82.8	87.9	92.6	94.7	89.5
Surpl./Deficit	bil.$	-10.3	-17.9	-20.3	-24.8	-21.3	-21.1
State and Local Governments:							
Income Taxes	bil.$	40.7	41.9	43.2	45.7	48.4	44.8
Corporate Profit Tax Accruals	bil.$	14.2	15.0	16.1	18.2	19.7	17.3
Surpl./Deficit	bil.$	23.7	20.1	21.3	21.9	22.6	21.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	246.9	273.1	280.6	285.2	294.6	283.4
Corporate Profit Tax Accruals	bil.$	84.8	99.2	107.4	116.5	125.6	112.2
Surpl./Deficit	bil.$	-20.1	-20.7	-21.2	-22.4	-24.7	-22.3
State and Local Governments:							
Income Taxes	bil.$	43.9	49.3	53.6	58.7	61.7	55.8
Corporate Profit Tax Accruals	bil.$	15.9	21.8	24.5	26.3	27.5	25.0
Surpl./Deficit	bil.$	19.0	23.5	25.2	27.4	29.6	26.4

*Historical data

electrical equipment, chemicals, and railroads. Food and kindred products, paper industry, textiles, utilities, banks, insurance, and real estate will have moderate profit gains in 1980.

The profit forecast by this Institute differs from the one recently published by the U.S. Department of Commerce. They assume a mild recession starting in the first quarter of 1980 and estimate such profits to be accumulating at a $144 billion annual rate, down by 5.6 billion from the rate in the last quarter of 1979. The projection here is for an increase (no recession is assumed at all). First quarter 1980 after tax profits are estimated at $152.7 billion. For 1980 as a whole, the figure here is $161.9 billion.

Many analysts are just now beginning to take a more optimistic view of the profit scene for this year. They are speculating that inflation may keep profits high or expressing the view that <u>if</u> there is no recession, profits might edge upward.

Fourth quarter data for wages and salaries released at the end of February show that they went up by 2.4 percent. The fourth quarter data climb is attributed mainly to the 3.1 percent pay raise manufacturing workers managed to get. For the year, 1979, wages and salaries were up by 8.7 percent. It is obvious that purchasing power was lost when inflation is kept in mind. More of the same is projected for 1980 and 1981. Unfortunately, the gap will be larger: Wage gains will be reflective of an even greater loss in purchasing power.

1.7 MONEY AND CREDIT
(Table 07. on page 23)

The KEDI projection for commercial and industrial loans shows a continuous strong upward trend. They can't be <u>seen</u>, as can be calculated from data in

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TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	2003.1	1923.7
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1681.0	1623.6
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1513.1	1459.0
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	150.4	145.0
Personal Saving	bil.$	72.0	79.2	85.9	70.3	57.5	73.2
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	222.0	218.2
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1923.7	2048.7	2099.6	2167.8	2242.5	2139.7
Personal Dispos. Income	bil.$	1623.6	1697.4	1778.5	1864.3	1880.7	1787.7
Compensation of Employees	bil.$	1459.4	1525.9	1588.7	1580.1	1751.2	1611.5
Corp. Profits After Tax	bil.$	145.0	152.7	154.7	166.5	173.7	161.9
Personal Saving	bil.$	73.2	60.1	67.9	71.3	77.5	69.2
Average Weekly Earnings	$	218.2	223.5	227.6	234.6	246.5	233.1
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2139.7	2019.7	2357.3	2426.1	2511.2	2328.6
Personal Dispos. Income	bil.$	1787.7	1890.2	1937.6	2019.4	2056.5	1975.9
Compensation of Employees	bil.$	1611.5	1794.6	1832.8	1942.7	1995.6	1891.4
Corp. Profits After Tax	bil.$	161.9	177.2	183.9	189.8	192.9	186.0
Personal Saving	bil.$	69.2	80.3	88.1	92.6	98.5	89.9
Average Weekly Earnings	$	233.1	249.8	255.7	259.6	265.3	257.6

*Historical data

Table 07. Also the estimate for consumer credit shows strong growth throughout this year and next.

The recent Federal Reserve moves to tighten both the money supply and credit have been incorporated in projections here. Such moves will make very little difference in monetary and credit aggregates. Demand is strong enough to be barely responsive to the Federal Reserve efforts. Lending institutions are doing just that: lending. According to specialists quoted in the Wall Street Journal, loans on the books of large banks grew at an annual rate of over 20 percent between mid-December and mid-February. In late February some banks boosted their prime rate to 16 and ¼ and even 16 and ½. Yet, due to problems in the bond market and strong demand, it is felt the banks will be increasingly turned to for financing. That is likely to add to the foundation of forces contributing to the growth in the money supply despite Federal Reserve efforts.

Calculations here show that the projected demand for commercial and industrial loans will not be signifcantly cut, unless the discount rate is hiked up to 15 percent and, correspondingly, the prime rate to the 18-20 percent range. A rise to 17 percent is likely soon as pressure mounts for it.

Concerning the monetary aggregates M_1 and M_2, in this issue, they are not changed. They remain the same as in the last month's publication. In the March publication, due out in early April these aggregates will be changed and reflect the new Federal definitions of the money supply.

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TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.6	391.6	376.3
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.3	659.7	639.2
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	299.4	299.4
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	265.7	265.7
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	115.6	115.6
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	454.2	454.2
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.1	404.7	412.5	420.3	427.4	416.3
Time Deposits, Adjusted	bil.$	638.9	670.5	684.1	704.2	726.0	696.2
Consumer Instal. Credit	bil.$	297.8	303.1	308.7	316.1	322.5	322.5
Commerc.and Ind. Loans at Banks	bil.$	264.6	275.9	276.1	279.4	283.0	283.0
Negotiable Cert.of Deposits	bil.$	115.2	120.1	126.4	135.0	136.9	136.9
Mortgages at S&L Assns.	bil.$	453.8	452.9	457.0	468.5	476.4	476.4
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	416.0	435.4	445.7	458.9	470.3	452.6
Time Deposits, Adjusted	bil.$	696.0	738.1	756.2	773.9	794.8	794.8
Consumer Instal. Credit	bil.$	322.9	331.9	339.2	350.6	360.4	360.4
Commerc.and Ind. Loans at Banks	bil.$	283.1	290.1	307.5	324.1	336.2	336.2
Negotiable Cert.of Deposits	bil.$	137.2	140.1	148.5	155.4	160.1	160.1
Mortgages at S&L Assn.	bil.$	480.7	480.1	496.5	511.9	520.6	520.6

*Historical data

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Table 08. on page 25)

As noted in Section 1.02 Assumptions, this forecast takes into account the recent increase in the Federal Reserve discount rate. Hence, the interest rates in Table 08. have been raised. These higher projections have not significantly affected the volume of commercial and industrial loans, consumer credit and mortgages projected. As was mentioned in the Money and Credit section, the demand remains strong. That demand will contribute to the possible further increases expected in interest rates.

The view that recent increases in the interest rate will not significantly affect the level of lending is supported by business leaders who express the feeling that such rates are still not stiff enough to crimp their operations. Banks still have money to lend. There is no shortage of money. An official of Monsanto was quoted in the February 25 Wall Street Journal as saying, they will not be deterred from bank borrowing "because the other debt markets are disastrous." Some express the view that they may consider looking to alternate funding such as bonds convertible into stock if the interest rate continues upward.

Concerning the mortgage rate, the forecast by this Institute is that it will be 12 percent at the end of this year. That is a rate generally expected. Some in the mortgage field feel that it is hardly likely that the rate will get below 11 percent. Others express the view that a rate around 12 percent is likely for this year and next. Others see a rate of around 12 and ¼ for this year.

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TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.96	9.61	9.89	11.96	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.23	12.76
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.88	10.52
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.54	9.77
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.61	9.55
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.13	106.54	103.52	102.39

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	13.52	14.01	13.55	13.16	13.56
Prime Rate	%	12.76	15.94	16.11	15.75	15.36	15.79
Mortgage Rate, New Homes	%	10.52	12.65	12.74	12.32	12.06	12.44
Aaa Bonds Rate	%	9.77	11.12	11.21	11.01	10.67	11.00
Long Term Govt. Bonds Yield	%	9.55	11.48	12.26	12.04	12.01	11.95
Standard & Poor's 500 Average	1941-43=100	102.39	102.85	100.36	101.28	103.56	102.01

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	13.56	12.25	12.10	11.27	10.56	11.55
Prime Rate	%	15.79	14.21	14.03	13.28	12.91	13.61
Mortgage Rate, New Homes	%	12.44	11.85	11.75	11.23	10.98	11.45
Aaa Bonds Rate	%	11.00	10.23	10.04	9.71	9.59	9.89
Long Term Govt. Bonds Yield	%	11.95	11.85	11.67	11.12	10.83	11.37
Standard & Poor's 500 Average	1941-43=100	102.01	104.72	106.87	108.31	107.54	106.86

*Historical data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Index of Industrial Production in 1979 has been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the FEDERAL RESERVE, Industrial Production, G. 12.3, February 15, 1980, p. 2. Forecast data are from Business Forecasts 1979, published by the Federal Reserve Bank of Richmond, Va., February, 1979, Library of Congress Catalogue Card No: 75-189493. The table below shows the predictions of forecasters and the deviations of forecast data.

TABLE 2.0 COMPARISON OF ACCURACY OF PREDICTIONS

Index of Industrial Production
(1967 = 100.)

Forecaster	Page in Business Forecasts 1979	Forecast	% of Accuracy
United California Bank	7	149.5	-1.8
Harris Trust and Savings Bank	9	145.0	-4.7
The Conference Board Forum	9	148.8	-2.2
Gulf Oil	11	151.5	- .5
National Securities and Research Co.	13	146.5	-3.7
University of Missouri - Columbia	17	158.0	+3.8
J.A. Livingston, Philadelphia	17	149.5	-1.7
Amer. Stat. Associat. and NBER	19	148.7	-2.3
Cyrus J. Lawrence, Inc.	21	146.7	-3.6
The First Natl. Bank of Chicago	22	150.9	-1.0
General Electric	23	147.3	-3.2
University of California	25	146.4	-3.8
The Fidelity Bank	26	152.5	+ .2
Bankers Trust Company	27	150.5	-1.1
Chemical Bank	28	152.5	+ .2
KEDI	29	150.5	-1.1
Manufacturers Hanover Trust Co.	30	147.3	-3.2
Argus Research Corporation	31	147.9	-2.8